ECONOMIC COMMENTARY

Declining Sales of Petroleum Products are impacting Alberta's Manufacturing Industry

April 10, 2015

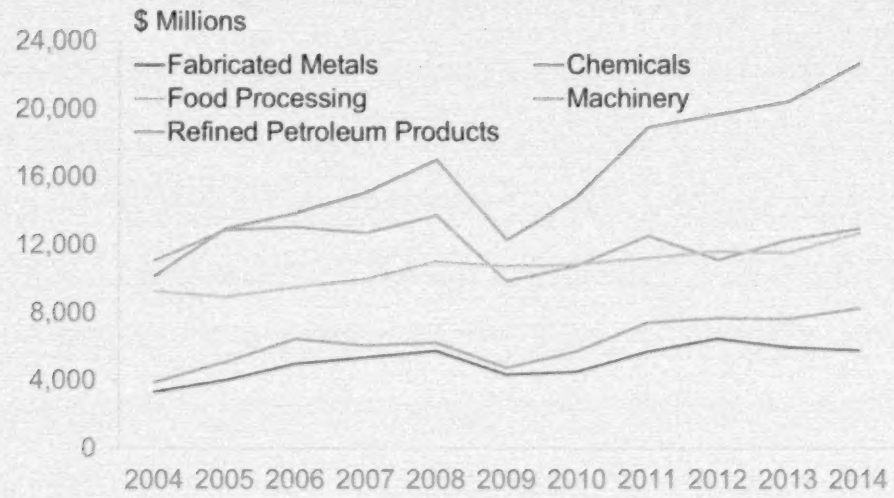
Highlights:

Revenues in Alberta's manufacturing industry increased 7.6% in 2014. However, sharply lower sales in its largest sector, refined petroleum products, are starting to impact overall manufacturing revenues.

Alberta
Government

During the past 10 years, Alberta's manufacturing sales grew by 49% to reach $79.4 billion in 2014. In 2014, the refined petroleum products sector (mainly refineries) was the largest manufacturing sector on a revenue basis and had increased its revenues by 84% to $22.6 billion. The chemicals sector took the runner-up position in 2014 with growth of 32% to $13.0 billion. The third largest sector, food processing, grew by 37% to $12.7 billion. Machinery and fabricated metals also had very strong growth between 2004 and 2014, expanding by 111% and 74%, respectively.

Alberta's Manufacturing Sales – Five Largest Sectors

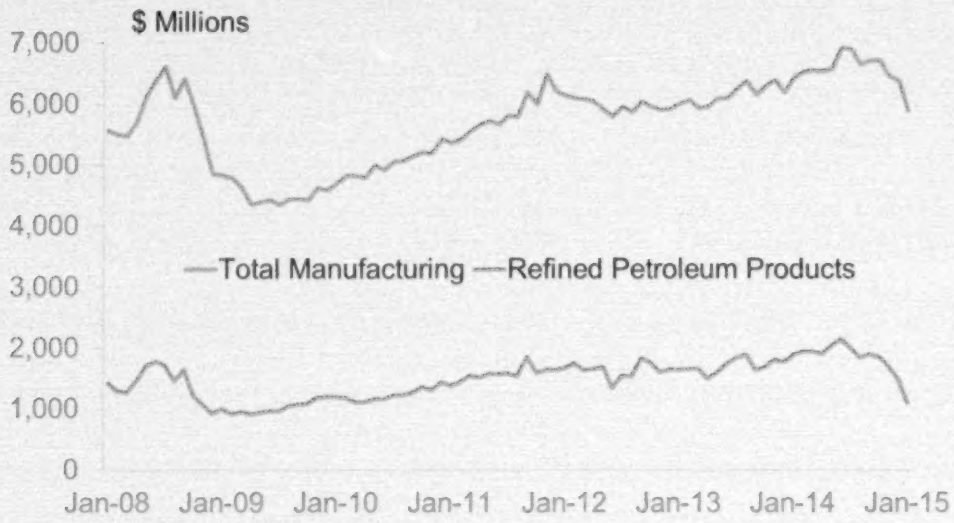


Source: Statistics Canada

In 2014, the value of manufacturing sales rose 7.6% from 2013 to $79.4 billion. All of Alberta's large manufacturing sectors registered growth in 2014 with the exception of fabricated metals which saw its sales decline by 2.8%. Sales of refined petroleum products, such as diesel and gasoline, rose 10.8%, of chemicals 5.4%, of food products 10.2% and of machinery 8.5%.

Even though manufacturing sales increased at a robust rate in calendar year 2014, they have in fact been declining since June 2014. As the below chart shows the decline in the manufacturing industry was the result of a huge decline in refined petroleum products: sales are down 26% between Dec 2014 and Jan 2015 and by almost one-half since June 2014. In fact, both total manufacturing sales and sales of refined petroleum products fell by $1.1 billion between June 2014 and January 2015. In other words, sales of manufactured products excluding refined petroleum products have remained fairly stable. The decline in refined petroleum products since June was a result of both lower prices and lower volumes: prices dropped an estimated 32% and volumes 24%. As export volumes remained strong and only about 10% of this sector's production is exported, the volume decline can be traced back to lower domestic demand for refined petroleum products, especially gasoline and diesel fuel.

Manufacturing Sales lower on plunging Refined Petroleum Product Shipments



Source: Statistics Canada

Alberta's manufacturing industry will probably continue to struggle throughout most of 2015 as the sharp drop in oil prices will also have negative impacts on a number of manufacturing sectors, such as machinery and fabricated metals, which supply products to the oil and gas capital projects.